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C O N F I D E N T I A L SANTIAGO 001266

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FROM THE AMBASSADOR

E.O. 12958: DECL: 08/01/2017

TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PINR](#) [PREL](#) [CI](#)

SUBJECT: THE ONCE AND FUTURE CHILE: OBSERVATIONS BY
OUTGOING AMBASSADOR

Classified By: Ambassador Craig Kelly for reasons 1.5 (b and d)

Summary

1.(C) Our bilateral relationship with Chile is thriving and we have made progress in getting the Chileans to assert more leadership in the region. Chile's dramatic success is widely and justifiably heralded. Less well known are its shortcomings in innovation, science, technology, education, IPR protection and English language. It is in our interest that Chile continue to succeed -- and lead. The Embassy and our many visitors from Washington have made clear that we are determined to remain Chile's partner in the high-tech goals of the future. Advancing on that bilateral agenda means enhanced educational exchange in the sciences, English language, more high-tech investment and encouragement of Chile's ambition to be a tiger economy. Chileans want more security cooperation as well. People-to-people public diplomacy, with a heavy focus on youth, helps Chile feel more comfortable as a player in the big leagues. Given the dynamics in the region, Chile's success is our success.
End Summary.

What Success Looks Like

¶2. (C) Since the end of Pinochet's rule in 1990, Chile has built strong, accountable democratic institutions resistant to populism and corruption. While opening its economy to the world, Chile has significantly increased prosperity and lowered poverty to 13.7 percent. Large swaths of Santiago look like any prosperous U.S. city. The Chileans are slowly overcoming their traditional resistance to stand out: President Bachelet and FM Foxley claim that Chile is doing more than ever in its history to exercise leadership in the region -- largely by urging neighbors to reach out to the successful economies of the Pacific Basin. Growing peacekeeping capabilities -- Chile has a 500-plus troop presence in Haiti and contributed small contingents to UN missions in Cyprus, Bosnia and Kosovo -- also reflect a higher profile. Relations with the U.S. are in excellent

shape, as bilateral trade booms, U.S. investment revives, and people-to-people exchanges expand. A poll shows Chileans consider the United States to be their best ally. Chile's democratic, free trade, pro-U.S. trajectory is solid and enjoys bipartisan political support inside the country.

But...

¶3. (C) Chile faces some significant challenges. Its export success, heavily commodities-driven, invites complacency. Innovation and risk-taking do not come easily to the conservative business community. IPR protection, while improving, still falls short of what the country needs to create a high-tech economy, as does the out-dated education system. Chile is short on marketing skills and does little to promote itself and its products overseas. Mediocre tourist infrastructure represents a missed opportunity in this beautiful country. Only about three percent of Chileans speak workable English. Corruption, still remarkably low by regional and even global standards, is creeping up as the ruling coalition enters its 18th consecutive year of power. Finally, even though Chile is far better off economically than most of its neighbors, several international polls show that Chileans are not very happy compared to others in the region. This last fact, due in part to rising expectations, presents a rising challenge to the government.

The U.S. Agenda

¶4. (C) How do we continue to help Chile foster its successes and overcome shortcomings?

-- First, devoting VIP attention to Chile works. With all the crises in the region, Washington could be forgiven for taking Chile for granted, but it has not. The number of high-level visits over the past three years is impressive and sends the signal to the Chileans that they count. Our intense cooperation on security and peacekeeping has paid dividends in Haiti and beyond, and the Chileans want even more.

-- Second, we should continue to urge Chile to measure its success not just by the standards of the region but by the yardstick of the dynamic tiger economies of Asia and Europe. As our visitors focus on global themes with the Chileans, they send the signal that Chile is rising to new status as a future member of the OECD and catalyst of Pacific Basin trade in Latin America.

-- Third, we need to build on our "new agenda" of innovation, science, technology, energy and the environment. The enthusiastic Chilean response to our programs at the American Academy of Science and Technology in Santiago, and to the high-tech agenda in recent visits by A/S Shannon, U/S Burns and Treasury Secretary Paulson, shows that Chile sees the United States as its most important partner in the sectors that will move Chile to the next level.

-- Fourth, the agenda of the future requires a strong education and cultural exchange component. We are about to conclude a major new agreement with the Chilean MFA to increase dramatically the number of Chilean PhDs in the United States -- mainly in science and technology. There is much to build on here as we seek to give Chileans a better taste of our innovation culture. Our public diplomacy should continue to intensify contact in "non-traditional" areas like science, sports and popular culture, to achieve maximum reach among a wider audience and increase Chile's comfort level with the world's most advanced economies.

-- Fifth, English language is vital to Chile's globalization. We are doing a lot with a variety of programs, but we can ramp up by helping the existing network of Binational

Centers. The BNC's no longer enjoy our financial support, but they carry the USA brand whether we like it or not. We should make the label and content as attractive as possible with state of the art English instruction and U.S. academic advisors.

-- Finally, we need to remain mindful that Chile perceives a tension between its desire to become a global tiger economy and its reluctance to be viewed as arrogant by its neighbors. (Or, as a prominent Chilean told us recently, "We dread being seen as Argentines, only badly dressed.") As noted above, Chile is wringing its hands less these days, and is encouraging countries to look at the Chilean way as a means to fight poverty and achieve prosperity. That enhanced leadership has been our main goal, but the Chileans appreciate that we have pursued it discreetly, without putting Chile in an awkward position.

A Word on Politics

¶ 15. (C) While Chilean political debates are lively and competitive, few people contest the overall free-trade path that the country has taken. President Bachelet's left-wing past and painful six-month odyssey toward an abstention on Venezuela's UNSC candidacy raised initial questions about her commitment to Chile's free-trade and Pacific Basin vocation. But she has demonstrated that she has no intention of changing the country's economic compass and her excellent appointments to key economic portfolios reassured the business communities at home and abroad. The main political debate is whether Chile is moving forward fast enough, with the center-right opposition -- including the front-runner for the center-right presidential nomination Sebastian Pinera,

answering loudly, "no." Even among the ruling Concertacion coalition, there are some who miss the close relationship that President Lagos enjoyed with the private sector.

¶ 16. (C) Chile's forward-looking Foreign Minister, Alejandro Foxley, notes that Bachelet grows every day more comfortable with the "Pacific Arc" trade agenda -- "although it has been a slow process." Bachelet can be expected quietly to nudge neighboring countries toward freer trade while avoiding ideological disputes with the "carnivorous left" in the hemisphere. She possesses great personal empathy and genuinely likes Americans, but as we continue to urge Chile to lead, we must be aware of the ambivalence in President Bachelet's world view.

Conclusion

¶ 17. (C) We cannot separate the innovation and leadership agendas. If Chile is to continue to serve as an example, it must keep moving ahead, and that means an increasing focus on the themes of the future. As always, it remains in our interest to help Chile succeed, because the implications go well beyond the bilateral relationship to our overall goals for democratic development in the region.
KELLY